

Military Transactions in the U.S. Balance of Payments

U.S. DEFENSE expenditures abroad for goods and services are estimated at \$4.3 billion in 1971, essentially unchanged from 1969 and 1970. Although the withdrawal of a large number of troops from Vietnam and elsewhere in Southeast Asia has served to end the rapid growth that occurred in 1966-69, defense expenditures abroad have shown no measurable decline. The expected foreign exchange savings from decreased U.S. military activity in Vietnam have been eroded by increased prices and wages in countries where U.S. military forces are heavily concentrated, and more recently by increases in the value of some foreign currencies relative to the dollar.

Transfers under military agency sales contracts probably reached a record \$1.9 billion in 1971, up sharply from the \$1.5 billion figure of the previous 2 years. Much of the rise was associated with large deliveries of aircraft to Germany and substantial shipments of military hardware to Israel and Iran.

On the basis of these estimates of expenditures and receipts, the balance on military transactions (excluding transfers under military grant programs) is estimated to have been in deficit by roughly \$3 billion in 1971, somewhat improved from the previous year's peak deficit of \$3.4 billion. The improvement represents a reversal of the unfavorable trend that developed in 1966 as increased transfers under military sales contracts were not large enough to offset rising costs of deploying additional combat forces in Southeast Asia and higher prices and wages overseas.

Data on defense expenditures which enter into the balance of payments represent total direct outlays by the military agencies for purchases of goods

and services abroad under all U.S. defense programs. The data consist of expenditures abroad by U.S. personnel and their families and by the post exchanges and other nonappropriated fund activities which sell to them; foreign expenditures for construction of U.S. bases and other facilities abroad; payments for NATO infrastructure; payments to foreigners for contractual services necessary to operate and maintain U.S. overseas installations; procurement of foreign goods to be used locally or in the United States; and the foreign exchange costs associated with the Military Assistance Program. Also included are similar transactions of the Coast Guard and the Atomic Energy Commission.

There are substantial amounts of military spending that are related to activities abroad but that involve no direct dollar outflows and are thus excluded from the balance of payments accounts. This type of transaction includes, for instance, purchases of domestically produced items for use abroad. In addition, certain transactions clearly related to the defense effort are commingled in the accounts with nonmilitary merchandise imports; such transactions include purchases in the United States of foreign products or foreign components of U.S. products as well as overseas procurement by private firms in the United States in fulfillment of defense contracts. Conversely, no attempt has been made to measure the indirect impact on U.S. exports of U.S. defense expenditures in foreign economies. Thus the direct defense expenditures abroad and the transfer of goods under U.S. military agency sales contracts, reviewed in this article, do not represent the total balance of payments

impact of transactions by the Department of Defense. (For further discussion of the relationship of defense expenditures and sales to U.S. trade, see the statistical note at the end of the article.)

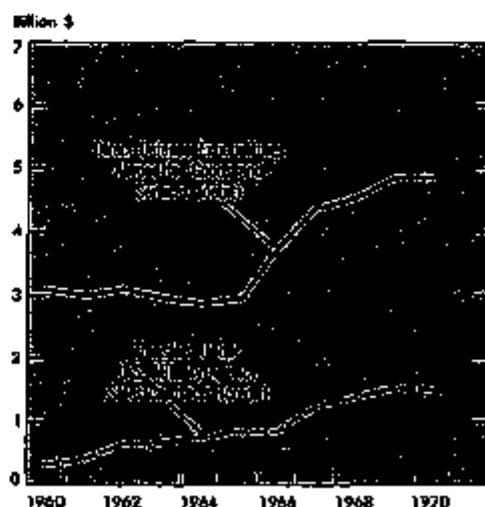
Defense Expenditures Abroad, by Major Category

Personnel spending of various sorts accounts for more than 50 percent of total direct defense expenditures abroad. This includes spending by U.S. personnel and their dependents, and payments to foreign personnel (chart 14).

Expenditures in other countries by U.S. military and civilian personnel and their dependents and by post exchanges and similar agencies totaled \$1.8 billion at an annual rate in the first half of 1971 (table 1). (There is no detectable seasonality in defense expenditures

CHART 13

Selected Defense Transactions in the U.S. Balance of Payments



U.S. Department of Commerce, Bureau of Economic Analysis

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abroad.) In 1965, the first year of stepped-up activity in Vietnam, the total was \$1.1 billion. Included are expenditures in local economies by servicemen and civilian personnel and their families, plus the reported expenditures of post exchanges and other activities operating with nonappropriated funds. Estimated spending in foreign countries by U.S. personnel and dependents is derived from the amount of cash paid out abroad to military and civilian personnel as reported in military accounting records, adjusted to reflect the amounts which are spent in official outlets or returned to the United States through military channels. However, any flow to or from the United States through private channels, for example, paychecks mailed directly by servicemen to the U.S. or currency received by servicemen as gifts from residents in the U.S., is not covered by the reporting system.

The rise in spending by U.S. personnel after the mid-1960's reflects large pay increases to U.S. military and civilian personnel, amounting to 63 percent and 39 percent, respectively, since 1965, and an increase in foreign outlays by military exchanges. Directives to the exchanges to stock merchandise of U.S. origin, to the greatest practicable extent, have not appreciably reduced their foreign expenditures, for procurement of goods represents less than half of their foreign expenditures.

Wage and salary payments to foreign locally engaged staff were running at an annual rate of \$700 million in the first half of 1971 compared with about \$425 million in 1965. Most of the increase since that time was related to additional operating requirements in Southeast Asia and sharp increases in the wage index in other countries where large U.S. forces are maintained. From 1965 through 1970, for example, the wage index rose 43 percent in Germany and 82 percent in Japan—the two leading recipients of U.S. payments for foreign labor. While employment of foreign nationals has dropped about 15 percent since 1968, wage increases and severance payments have resulted in a 20 percent increase in payments to foreign laborers during this period.

Overseas construction declines

Since the crash program to build bases, airfields, and deep draft ports in Southeast Asia has generally been completed, outlays for military construction have declined substantially. Foreign exchange expenditures for U.S. construction projects are estimated to have amounted to about \$200 million in 1971, compared with a peak of about \$380 million in 1967. Other than the construction of a joint United States-United Kingdom naval communications facility on islands in the British Indian Ocean Territory, no major new bases are planned at this time. The gradual shift toward an all-volunteer armed force will probably result in a request by the military agencies for additional funds to construct new barracks and family housing. In addition, hundreds of overseas facilities maintained by the United States constantly require repair and improvement. A provision in the new "offset" agreement with the Federal Republic of Germany, whereby Germany has agreed to provide for rehabilitation of barracks of U.S. forces

in Germany, will alleviate some of the burden of U.S. military construction expenditures there.

NATO infrastructure is the system of multinationally owned construction projects including airfields, communications facilities, pipelines, and naval facilities. The installations are developed for common use by the forces of all NATO countries and are thus jointly financed. Since the NATO program is under international direction, the United States Government does not have the authority to let contracts for these facilities, but the adoption of a system of international competitive bidding for construction contracts has made it possible for American companies to compete equally with firms from other participating countries. Any procurement from U.S. sources reduces the foreign exchange cost of our outlays.

Contractual services

Expenditures for contractual services, other than direct and contract hire of foreign citizens, have averaged

Table 1.—Defense Expenditures Abroad for Goods and Services, by Major Category

(Millions of dollars)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	Jan.-June 1971
Total	3,697	2,958	3,165	2,961	2,899	2,562	2,764	4,375	4,625	4,854	4,851	2,388
Department of Defense expenditures	2,722	2,094	2,829	2,765	2,705	2,594	3,718	4,367	4,526	4,845	4,841	2,383
Expenditures by U.S. personnel and by military exchanges, clubs, etc.	506	772	829	843	854	1,060	1,258	1,391	1,490	1,651	1,833	321
U.S. military and civilian personnel and dependents	418	480	494	472	461	623	738	799	848	944	1,064	566
Military exchanges and other nonappropriated fund agencies	288	312	345	371	393	437	516	602	631	707	779	806
Foreign citizens (direct and contract hire) ..	268	388	414	429	409	423	482	558	581	662	688	856
Construction	166	152	110	92	105	102	353	382	272	326	261	107
NATO infrastructure	117	80	88	66	65	41	46	48	56	39	46	30
Contractual services	466	690	522	586	570	589	754	998	1,068	1,094	1,086	518
Major equipment	68	69	79	84	68	73	145	187	198	198	181	74
Materials and supplies	561	879	683	510	427	443	562	721	800	833	713	305
Military assistance program offshore procurement	148	147	143	151	89	57	40	30	17	21	4	4
Military assistance program services	49	37	68	64	57	35	30	46	28	37	37	19
Coast Guard expenditures	783	2	4	8	7	9	10	9	9	11	10	5
Atomic Energy Commission defense expenditures	365	391	292	188	118	49	36	2				
Memorandum: Merchandise imports of U.S. military agencies identified in Census documents	477	398	370	382	241	184	217	251	280	237	179	96

Nbs. Not shown separately.

1. For quarterly data see line 17, table 2, of the quarterly U.S. balance of payments presentations in the SURVEY OF CURRENT BUSINESS. This series differs from the series maintained by the Department of Defense which includes expenditures for retired pay, claims, grants of cash to foreign countries, and net changes in Department of Defense holdings of foreign currencies purchased with dollars. These transactions are included in other entries in the quarterly balance of payments presentations in the SURVEY OF CURRENT BUSINESS.

2. Merchandise imported directly by the Department of Defense, as well as "defense" imports of the Coast Guard and Atomic Energy Commission, to the extent such imports are identifiable from Census import documents and verifiable from separate reports of the reporting agencies. For quarterly data see line 14, table 4, of the quarterly U.S. balance of payments presentations in the SURVEY OF CURRENT BUSINESS.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, from information made available by operating agencies.

just over \$1 billion for the past several years and are the second largest category of overseas defense spending. These expenditures are incurred primarily for travel, communications, rents, utilities, maintenance, and repairs. Rising prices abroad keep this category of spending high as most of these expenditures necessarily involve payments to foreigners. The contractual services total also includes annual payments of approximately \$100 million

to foreign contractors for transportation services. Many countries insist that U.S. military agencies use indigenous transportation systems, particularly for the inland movement of material from port of entry. A small item in the total—about \$20 million each year—is spending by the United States in cooperation with other nations for research and development activities and evaluation of foreign science and technology.

Defense procurement abroad

Purchases of major equipment from foreign suppliers largely reflect certain reciprocal arrangements which the United States has with other countries. Payments for such equipment increased from about \$75 million in 1965 to about \$200 million a year in the 1967-69 period. They declined in 1970 and dropped further in the first half of 1971, to an annual rate of \$150 million. The increase after 1965 was associated with Vietnam requirements and with increased procurement contracts obtained by Canadian prime contractors under a system of open competitive bidding. Payments to Canadian contractors began to decline in 1969 but the decline was offset by a program of aircraft procurement in the United Kingdom. Under a government-to-government agreement, the British Ministry of Defense has received letters of offer and acceptance valued at over \$200 million for procurement of the vertical/short take-off and landing jet (Harrier) and associated support and services for the U.S. Marine Corps. Eventually, the aircraft are likely to be produced under license in the United States (which would reduce the foreign exchange costs but raise total budget costs).

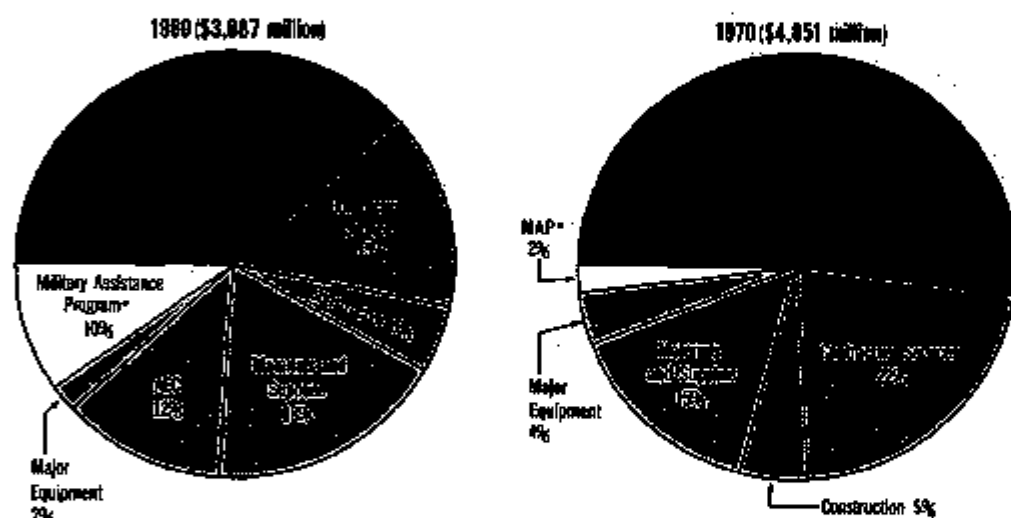
Defense purchases of materials and supplies, other than major equipment, were at an annual rate of \$700 million in the first half of 1971, unchanged from 1970 but down from 1968 and 1969. Expenditures in this category range from office supplies to petroleum. Some of the spending reflects contracts negotiated in return for base rights, some reflects a desire to minimize total budget costs, some occurs because of limited supply from the United States, while some expenditures are made for a variety of other reasons.

Purchases of petroleum, by far the largest expense for foreign-produced products, totaled about \$440 million at an annual rate in the first half of 1971. They reached a high of \$550 million in 1969, but the real extent of the decline from 1969 to 1971 is less than the figures indicate. Petroleum prices and associated transportation costs have increased sharply and con-

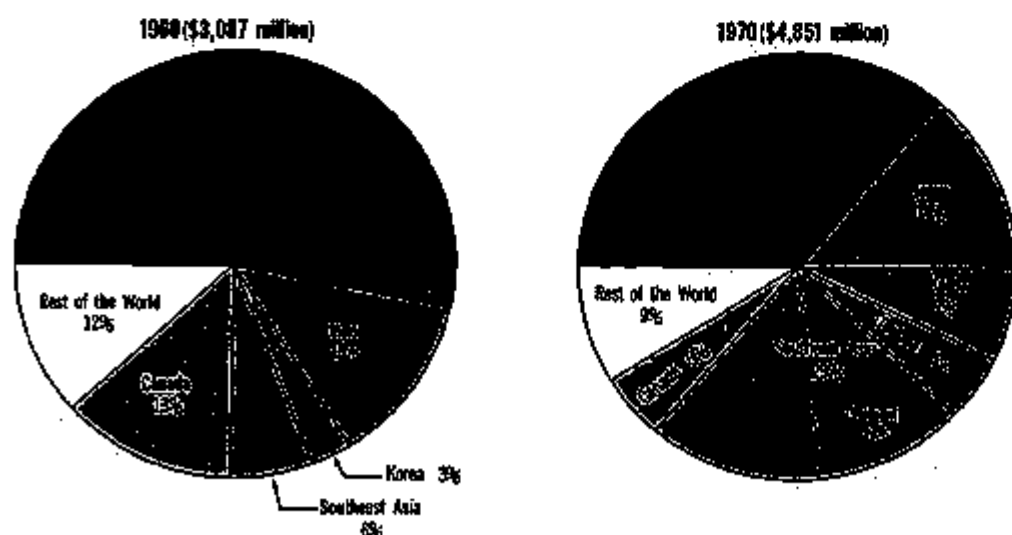
CHART 14

Distribution of Direct Defense Expenditures Abroad for Goods and Services

BY MAJOR CATEGORIES



BY MAJOR COUNTRIES AND AREAS



*Includes NATO Infrastructure

U.S. Department of Commerce, Bureau of Economic Analysis

72-1-14

sumption remains high despite the U.S. withdrawal from Vietnam and the deactivation of a number of naval ships. However, large contracts for refined petroleum products which had previously been awarded to firms in foreign countries have recently been placed in Guam and the Virgin Islands. Defense purchases of refined petroleum products in U.S. territories are classified as domestic transactions and are thus excluded from the military account in the balance of payments statistics. Of course, any import of crude petroleum into Guam and the Virgin Islands, to be refined under such contracts, is recorded in the private merchandise account.

Procurement of subsistence items abroad, amounting to over \$65 million in 1970, represents another significant portion of total procurement of materials and supplies. Even in the jet age it is difficult to transport fresh fruit and vegetables from the United States to some of the remote spots of the world where U.S. forces are assigned. Contracts to supply subsistence items are an important source of foreign earnings for certain countries, and these contracts are often directly correlated with U.S. privileges at foreign bases.

Various measures have been instituted to minimize defense procurement abroad and to press the use of U.S. materials and supplies in support of U.S. defense activities overseas. Preference is accorded to domestic over foreign suppliers when estimated U.S. costs do not exceed foreign costs by more than 50 percent. During the 1960's, however, accelerated military activity in Vietnam necessitated the placement of orders which could be filled quickly, and suppliers in Japan, Korea, Taiwan, and a few other countries enjoyed obvious geographical advantages. Certain of these contracts were placed in countries for support of their forces deployed to the Republic of Vietnam, but large contracts were also let for support of U.S. forces.

Military assistance program

Offshore procurement for military assistance purposes continues to decline and amounted to only \$4 million in the

first half of 1971. Such procurement, once a major component of military spending abroad, consists mainly of the acquisition of military equipment to be given to foreign countries as military assistance grants. Other disbursements under the declining Military Assistance Program are contributions to international military headquarters expenses—about \$25 million per year—and small amounts of administrative expenses.

Geographic Distribution of Defense Spending

Under a complex system of treaties and bilateral agreements, the United States has deployed its troops virtually around the world. American forces continue to operate in South Vietnam and to man defense lines in South Korea; large garrisons are maintained in West Germany; a fleet patrols waters off the Middle East, another cruises in the Western Pacific, and the navy stands ready to deploy ships to trouble spots. In spite of this far-flung network of military facilities, defense outlays abroad are concentrated in relatively few countries.

Germany continues to be the leading recipient, with expenditures there during the first half of 1971 amounting to \$1.2 billion at an annual rate (table 2 and chart 14). Nearly one-half of these expenditures were made by U.S. personnel and by the system of PX's, and service and entertainment facilities which serve the American military community in Germany. Payments to foreign locally engaged staff run to more than \$250 million annually and nearly \$200 million is incurred for other services.

A series of "offset" agreements between the United States and the Federal Republic of Germany has been designed to neutralize a substantial portion of the balance-of-payments costs of maintaining U.S. forces in Germany. From 1962 through 1967, Germany deposited funds with the U.S. Treasury in amounts approximating our defense expenditures there. Such funds were earmarked for German purchases of military goods and services from the U.S. Government and from private U.S. firms. In the following 2

years, the principal provision of the offset agreements was the purchase of medium-term U.S. Government securities by the Bundesbank. German deposits in the U.S. Treasury for purchases of U.S. military goods and services again became the major provision in the agreement covering fiscal years 1970 and 1971. Late in calendar 1971, the United States and Germany concluded a new offset agreement covering the period from July 1, 1971 through June 30, 1973. Total provisions under the new agreement amount to about \$2 billion, of which more than \$1.2 billion is earmarked for procurement of military supplies and equipment. A key new element of the agreement is a \$185 million program for the rehabilitation of barracks and other facilities used by U.S. forces in Germany.

Japan is the second largest recipient of U.S. defense spending abroad. Japan's receipts totaled \$600 million at an annual rate in the first half of 1971. As in Germany, a very large percentage of total disbursements in Japan consists of U.S. personnel and personnel-related expenditures and payments to foreign nationals. Many Japanese products are bought for resale by the post exchanges, often in countries other than Japan. Such sales have been facilitated by catalogue distribution to U.S. servicemen afloat and in other countries.

Expenditures in Vietnam and Korea are the third and fourth largest, respectively. The withdrawal of combat troops from Vietnam has not significantly reduced the foreign exchange costs of U.S. command and logistical headquarters remaining there, nor has it had much impact on total personnel spending because per capita foreign exchange costs in Vietnam are relatively low. There are virtually no accompanying dependents and much of the servicemen's pay is sent through official channels to families in the United States or deposited in savings accounts. The marketplaces in Vietnam do not offer the glitter or the merchandise found in Japan and Europe, and recreation areas in Vietnam are constructed and controlled by the United States. Furthermore, the more favorable exchange rate, effective October 1970, of 275 piastres

to the dollar resulted in a twofold increase in the sales of piastres to individuals through official outlets and thus some of the personnel spending which was previously lost to the black market is now included in the reporting system. Total outlays in Vietnam in the first half of 1971 were approximately \$520 million at an annual rate, essentially unchanged from 1970.

The withdrawal of American GI's from Vietnam has had as much impact on certain other countries as on Vietnam. Spending by servicemen on rest and recuperation leave in Australia, for example, channeled more than \$80 million into that economy during the past 4 years. Other "R and R" leave centers were located in Hong Kong, Singapore, Bangkok, Taiwan, and Okinawa, and a total of more than \$100 million was spent annually in these places when American forces in Vietnam were at their peak. Such spending is

estimated to have decreased to about \$50 million in 1971 and is expected to decline further in 1972.

Military expenditures in Korea, after peaking at over \$360 million in 1969, declined slightly in 1970 and in the first half of 1971. An infantry division was withdrawn in 1971 but some 40,000 U.S. military personnel remain. Also, there have been substantial U.S. expenditures in Korea associated with Korean support efforts in Vietnam, involving troops, civilian technicians, and construction materials, particularly cement.

The other major recipients of U.S. defense spending, as shown in table 2, are the United Kingdom, Canada, the oil-producing countries in the American Republics and Caribbean area, the Ryukyu Islands (Okinawa), Philippines, and Thailand. There are a number of major U.S. air bases in the United Kingdom, and Canada is an

important supplier of spare parts for U.S. military equipment. Bases in the Ryukyu Islands, Thailand, and Philippines have provided important staging areas and other forms of support for U.S. operations in Vietnam.

U.S. Military Shipments

Transfers under U.S. military agency sales contracts were running at an annual rate of \$2.2 billion in the first half of 1971 (table 3). Such shipments totaled more than \$10 billion from 1960 through 1970, with 70 percent of that total delivered during the 1965-1970 period. This sales program has provided our allies with modern equipment for their defense requirements and has helped to standardize cooperative logistics and equipment; the expansion of the program reflects the emphasis on military sales as a means of offsetting the foreign exchange costs of American troop maintenance and other defense-related expenditures in Europe and Southeast Asia.

Transfers under Foreign Military Sales (FMS) Contracts account for 95 percent of the total shown in table 3 and have been primarily to developed countries. FMS transfers represent deliveries of goods to and performance of services for foreign governments by U.S. military agencies. In this context, "delivery" of goods refers to the transfer of goods from the U.S. Government to foreign governments for use abroad or in the United States and to the transfer from stocks at U.S. military installations abroad. The equipment involved largely consists of advanced weapons systems, aircraft, and associated parts and spares. Also included are training in the use of this weaponry, and other less sophisticated equipment such as tanks, ammunition, and communications gear. Transfer is effected upon change of title or performance of service.

The other 5 percent of military transfers consists mainly of sales of surplus or excess property, mostly at scrap or salvage value, petroleum products and other goods and services furnished to foreign naval vessels and aircraft, and deliveries of material and services under

Table 2—Defense Expenditures Abroad for Goods and Services, by Major Country¹

	Jan.-June 1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	Jan.-June 1971
(Millions of dollars)												
Total.....	2,057	2,296	2,295	2,061	2,289	2,262	2,144	2,278	2,535	2,686	2,651	2,388
Western Europe.....	1,882	1,831	1,638	1,523	1,492	1,488	1,335	1,618	1,536	1,628	1,774	874
Belgium/Luxembourg.....	28	12	16	12	11	12	14	16	37	39	37	19
Denmark/Greenland.....	51	27	24	42	36	40	37	34	34	33	34	16
France.....	274	286	263	248	218	206	206	97	23	18	17	11
Germany.....	549	628	749	691	644	714	770	837	875	948	1,038	586
Greece.....	19	18	28	27	28	31	24	29	29	26	28	14
Iceland.....	14	14	12	10	11	13	17	24	18	17	21	11
Italy.....	116	57	114	90	102	102	102	102	104	132	108	29
Netherlands.....	37	28	34	31	40	41	43	49	41	44	44	24
Norway.....	17	14	15	14	24	24	28	38	32	19	8	3
Spain.....	54	54	32	49	48	45	53	43	43	47	58	29
Switzerland.....	9	9	5	8	10	11	10	12	10	12	12	7
Turkey.....	87	54	55	50	58	43	48	48	48	43	41	17
United Kingdom.....	287	225	197	184	178	154	148	210	173	208	228	123
Other and unallocated.....	30	26	43	68	39	51	35	54	61	60	72	43
Canada.....	287	357	326	296	258	177	206	222	225	298	253	101
Latin American Republics.....	58	67	76	79	36	89	91	102	105	112	118	54
Other Western Hemisphere.....	39	100	87	92	94	80	66	81	83	64	51	26
Bermuda.....	13	14	14	14	10	8	9	11	8	8	8	3
Netherlands Antilles.....	63	63	53	51	54	42	21	43	44	33	17	8
Trinidad and Tobago.....	12	20	17	21	24	42	29	19	22	16	16	11
Other and unallocated.....	4	3	3	6	6	7	9	6	6	7	8	4
Australia, New Zealand, and South Africa.....	75	59	103	105	103	47	59	29	33	42	48	19
Other Countries.....	825	855	890	906	847	1,051	1,306	2,318	2,494	2,714	2,607	1,214
Bahrain.....	36	43	89	33	31	38	38	59	61	50	40	30
Japan.....	412	362	362	368	321	345	484	538	590	621	870	368
Korea.....	94	112	103	90	91	97	160	237	202	264	223	148
Morocco.....	26	21	18	16	7	4	5	6	6	6	7	4
Philippines.....	47	49	61	40	68	81	127	167	171	189	174	73
Ryukyu Islands.....	78	59	96	97	115	128	180	188	201	229	249	127
Saudi Arabia.....	42	45	44	43	37	38	51	33	31	92	79	34
Taiwan.....	25	53	22	20	21	21	50	70	78	80	87	87
Thailand.....	6	5	30	27	34	70	183	286	318	264	226	69
Vietnam.....	17	112	127	52	64	185	406	564	526	576	527	258
Other and unallocated.....	53	57	55	72	68	79	120	159	132	213	229	94

1. For quarterly data by area see line 27, table 2, of the quarterly balance of payments presentations in the Survey of Current Business.

2. Includes Cambodia and Laos.

Note.—See table 1 for other notes.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, from information made available by operating agencies.

logistical support programs furnished to foreign countries or international organizations. Also included is the receipt of foreign currencies, contributed by foreign governments under military assistance programs and used primarily for the support of our military missions abroad.

Transfers under U.S. military agency sales contracts shown in table 3 differ from the military exports identified in Census documents in that the latter measures only those military goods which cross U.S. Customs borders. It should also be noted that the figures in table 3 include only that portion of military sales transactions which is channeled through the Department of Defense. Sales of military equipment negotiated by U.S. private firms are included in the private merchandise account in the balance of payments statistics. (For further discussion of the relationship of defense shipments to U.S. trade, see the statistical note at the end of the article.)

Under a series of agreements beginning late in 1961, the balance of payments impact of disbursements for U.S. forces stationed in Germany was to be offset by large purchases of supplies and equipment by the Federal Republic of Germany from the U.S. Government and from private U.S. suppliers. As a result of these agreements, Germany has been the largest

buyer of U.S. military goods and services under military agency sales programs, receiving 30 percent of all shipments from 1960 through 1970.

The United Kingdom has also been a large buyer of U.S. arms, accounting for 13 percent of total deliveries from 1960 through 1970. Contracts for F-4 fighter aircraft and C130 cargo planes pushed deliveries to the United Kingdom to an average of \$300 million a year in 1967-69, up from a previous high of \$78 million in 1966. As major deliveries under these contracts were completed, military exports to the United Kingdom declined to \$175 million in 1970. Over the past 10 years, other Western European countries combined received about 20 percent of total U.S. military exports.

In 1965, Australia increased her defense budget to allow for a larger armed force and additional defense procurement, subsequently ordering a number of C130 cargo planes and other aircraft from the United States. These aircraft sales, combined with later sales of several destroyers and other military items, resulted in deliveries averaging \$125 million in 1967-69, up sharply from previous levels. Deliveries to Australia of over \$185 million in 1970 were associated with the leasing of 24 F-4 fighter aircraft pending delivery of the technically troubled F-111. Since 1965 New Zealand has also increased its

purchases of U.S. arms. The two countries combined received 8 percent of total U.S. deliveries from 1960 through 1970.

Military exports to other countries in Asia and Africa amounted to \$1.9 billion in the period 1960-70 or 19 percent of total deliveries in the period. However, \$1.7 billion represent shipments from 1965 through 1970. The sharp increase is largely attributable to two factors. First, several countries which had previously been recipients of military goods under U.S. grant aid programs have in recent years become purchasers of military goods under credit arrangements made available by the Export-Import Bank or through special credit accounts provided by the military assistance program. Second, sales to Israel have increased since the Middle East conflict in 1967. Special credit arrangements provided to Israel through the military assistance program enabled her to procure U.S. fighter aircraft and other military equipment.

Transfers of military goods and services to Canada represented 4 percent of the total from 1960 to 1970, while the American Republics and Japan each accounted for 3 percent. However, substantial Japanese purchases of military equipment directly from U.S. private firms are included in the private merchandise trade account.

Table 3.—Transfers Under U.S. Military Agency Sales Contracts¹

(Millions of dollars)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	Jan.-June 1971	Total 1960-70
Total	836	482	555	557	747	830	523	1,348	1,395	1,515	1,490	1,087	10,085
United Kingdom	10	17	18	13	43	55	78	326	291	295	177	57	1,324
European Economic Community	196	224	483	477	477	397	407	428	353	395	270	333	4,097
Other Western Europe	16	26	26	50	54	68	54	116	124	173	152	74	320
Canada	35	39	25	18	34	60	40	52	85	45	35	34	422
Latin American Republics and other Western Hemisphere	19	17	17	17	19	31	23	27	65	29	41	18	301
Japan	20	24	24	25	16	31	21	34	51	15	25	12	270
Australia, New Zealand, and South Africa	5	6	16	25	48	95	67	132	179	108	165	47	541
Other countries in Asia and Africa	27	27	19	20	54	94	125	120	300	437	612	501	1,940
International organizations and unallocated	0	24	14	11	1								56
Memorandum:													
Merchandise exports transferred under U.S. military agency sales contracts identified in Census documents ²	232	252	327	394	420	621	379	640	754	1,172	1,010	659	4,211

1. For quarterly data see line 3, table 2, and line 3, table 3, of the quarterly U.S. balance of payments presentations in the Survey of Current Business.
2. Exports of military equipment under U.S. military agency sales contracts with foreign governments to the extent such exports are identifiable from Census export documents. For quarterly data see line 7, table 4, of the quarterly balance of payments presentations in the Survey of Current Business.

NOTE.—Details may not add to total because of rounding.
Source: U.S. Department of Commerce, Bureau of Economic Analysis, from information made available by operating agencies.

STATISTICAL NOTE

The memorandum line in table 1 shows merchandise imports of U.S. military agencies identified in Census import documents. These data include only those foreign products physically imported into the United States. The other data in table 1 include procurement of foreign goods for use in the country of purchase or in third countries as well as in the United States and also include sizable amounts of services. The two series cannot be reconciled since the data provided by the defense agencies make no clear-cut distinction between expenditures for foreign goods and expenditures for foreign services. However, most foreign materials and supplies procured by the Defense Department are used abroad; therefore, uranium imported by the Atomic Energy Commission and equipment imported by the Defense Department represent most of the military merchandise imports identified in import documents. Also, there are timing differences between the two series, as the Census data reflect movement of goods across customs boundaries while Defense Department data reflect the payment for foreign products.

The memorandum line in table 2 shows exports under U.S. military agency sales contracts identified in Census export documents, and therefore includes only those goods physically exported from the United States. Other data in table 2 include not only those goods sold under military sales contracts which are physically exported to foreign countries, but also goods transferred to foreign governments but not physically removed from the United States, goods transferred from U.S. military installation stocks abroad, services performed under Foreign Military Sales (FMS) contracts, miscellaneous sales of surplus or excess property from U.S. installations abroad, and the receipt of foreign currencies contributed by foreign governments under military assistance programs. Moreover, the Census data report exports when the

goods leave the United States, while the Defense Department data report transfers when change in ownership occurs, which may be before, at the same time as, or after the physical export of these goods.

It would be useful for some analytical purposes to be able to identify goods separately from services in the military accounts, and to be able to reconcile Census and Defense agency data. This would require certain changes in reporting procedures and methods of presentation, and interagency negotiations have been initiated in an effort to resolve these statistical problems.

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ment for purchases of foreign currency. The unified budget includes them while the NIA excludes them as an exchange of assets.

Netting and grossing

This adjustment affects only the levels of receipts and expenditures and not the difference between the NIA deficit and the unified budget deficit. The largest item in this category is the Federal Government's contribution to employee retirement funds. These contributions are excluded from total budget expenditures as intragovernmental transactions. However, the NIA considers these contributions to be part of employee compensation and includes them as purchases of goods and services and as contributions for social insurance. Therefore, the NIA Federal sector includes the contributions to retirement funds in both receipts and expenditures, with no effect on the deficit. In 1973, this adjustment amounts to \$3½ billion.

Other netting and grossing consists primarily of money received from the public recorded as offsets to expenditures in the unified budget. For instance, receipts from two major veterans insurance programs—National Service Life Insurance and U.S. Government Life Insurance—are netted against expenditures of these programs.

However, in the NIA, this income is treated as receipts in the form of social insurance contributions. Other netting and grossing adjustments are estimated to add about \$1½ billion to the level of NIA receipts and expenditures in 1973.

Timing

The budget records receipts at the time cash is collected regardless of when the income is earned; expenditures—except interest, which is recorded on an accrual basis in both the budget and the NIA—are generally recorded in the budget at the time the checks are issued. The NIA records taxes paid by business in the time period in which the income is earned rather than at the time the taxes are paid. Personal income taxes, however, are recorded at the time of payment. NIA receipts in fiscal 1973 are expected to exceed cash collections by \$2½ billion.

The principal timing adjustment on the expenditure side is for purchases of goods and services. Purchases from the private sector are mainly recorded in the NIA at the time of delivery to the Government rather than at time of payment; goods produced to Government order are recorded in GNP as part of private inventories until delivery to the Government, when inventories decline and Government purchases increase. In 1973, it is expected that defense deliveries will exceed cash payments by \$3 billion.

Land transactions and miscellaneous adjustments

All purchases and sales of land are excluded from the Federal sector of the NIA. The NIA also excludes oil bonus receipts which are treated as capital expenditures by U.S. corporations, and as an offset to expenditures in the unified budget. The sum of these items adds \$1.7 billion to NIA expenditures in 1973.

There are a number of other differences between the two concepts, including certain foreign currency transactions, capital gains, other smaller timing adjustments, and several other items of lesser importance.